Malaysia's Economic Outlook: New Challenges Facing the Malaysian Economy

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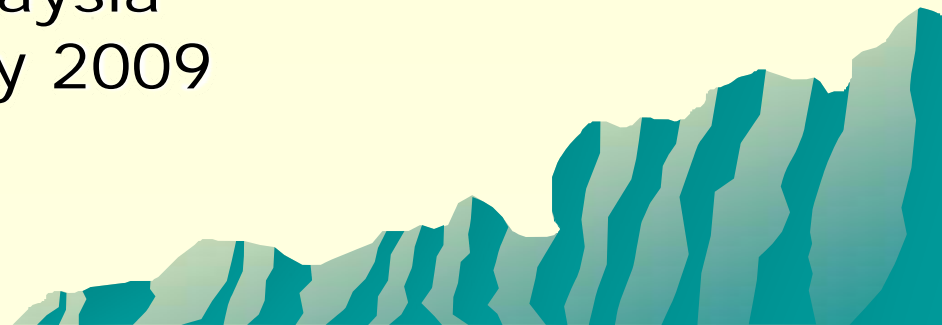

Rapidly Weakening Global Outlook: Real GDP Growth (%)

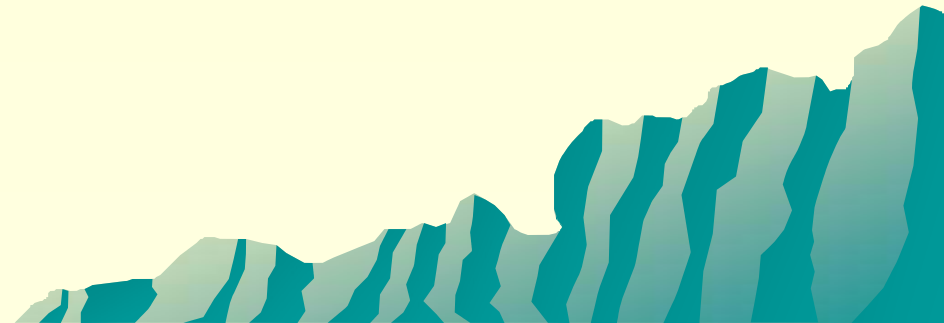
	2008	**2009(f)**
US	1.4	-0.7
EU	1.2	-0.5
Japan	0.5	-0.2
China	9.7	8.5
India	7.8	6.3
ASEAN	5.4	4.2
World	3.7	2.2

Source: IMF World Economic Outlook Database, Nov 2008

Global economic decline has not reached the bottom yet

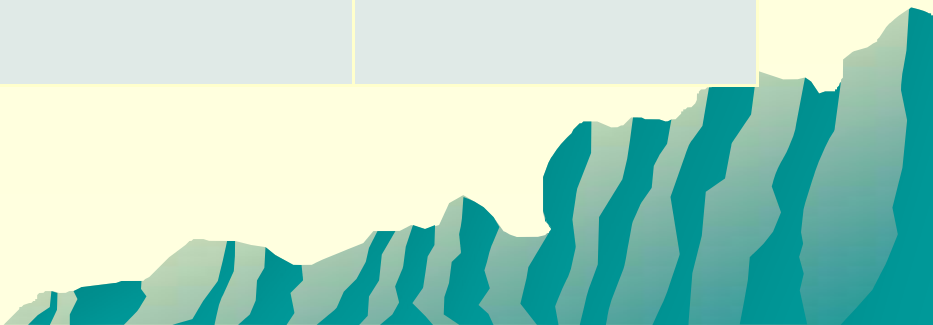
- Difficult economic times ahead – How severe will the crisis be?
- Possibility of U-shape GDP growth curve with long flat bottom means recovery is slow
- Expected recovery – 2011 or 2012?
- Recovery is very dependent on US economy
  - The promise of Obama's US$775bn stimulus package may be delayed
- European Commission's 200bn euros (US$259bn) focuses on internal domestic demand

Export-led Implosion in East Asia Economies

- Contraction of China's manufacturing sector is severe and unexpected
- Japanese corporate giants are experiencing losses – Toyota, Sony
- Korea – faced shortage of US dollars and was given dollar swap support
- Singapore is already in a technical recession
- Countries with large export exposure are being the hardest hit

Global Unemployment (%)

	Nov 2008
US	7.2 (Dec)
EU	7.7 (Oct)
Japan	3.9 (Nov)
China	4.2 (Sep)
S. Korea	3.3 (Nov)
Malaysia	3.2 (Nov)

Various Official Sources

November Exports y-o-y (%) of Asian Countries

	Nov 2008
Japan	-26.7
China	-2.2
S Korea	-17.4 (Dec)
Thailand	-18.0
Singapore	-17.5
Malaysia	-4.9

Various Official Sources

Preliminary Release of Malaysia External Trade Statistics November 2008

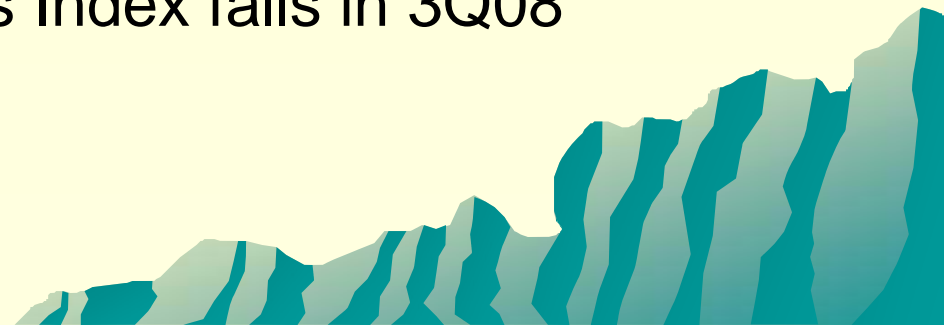
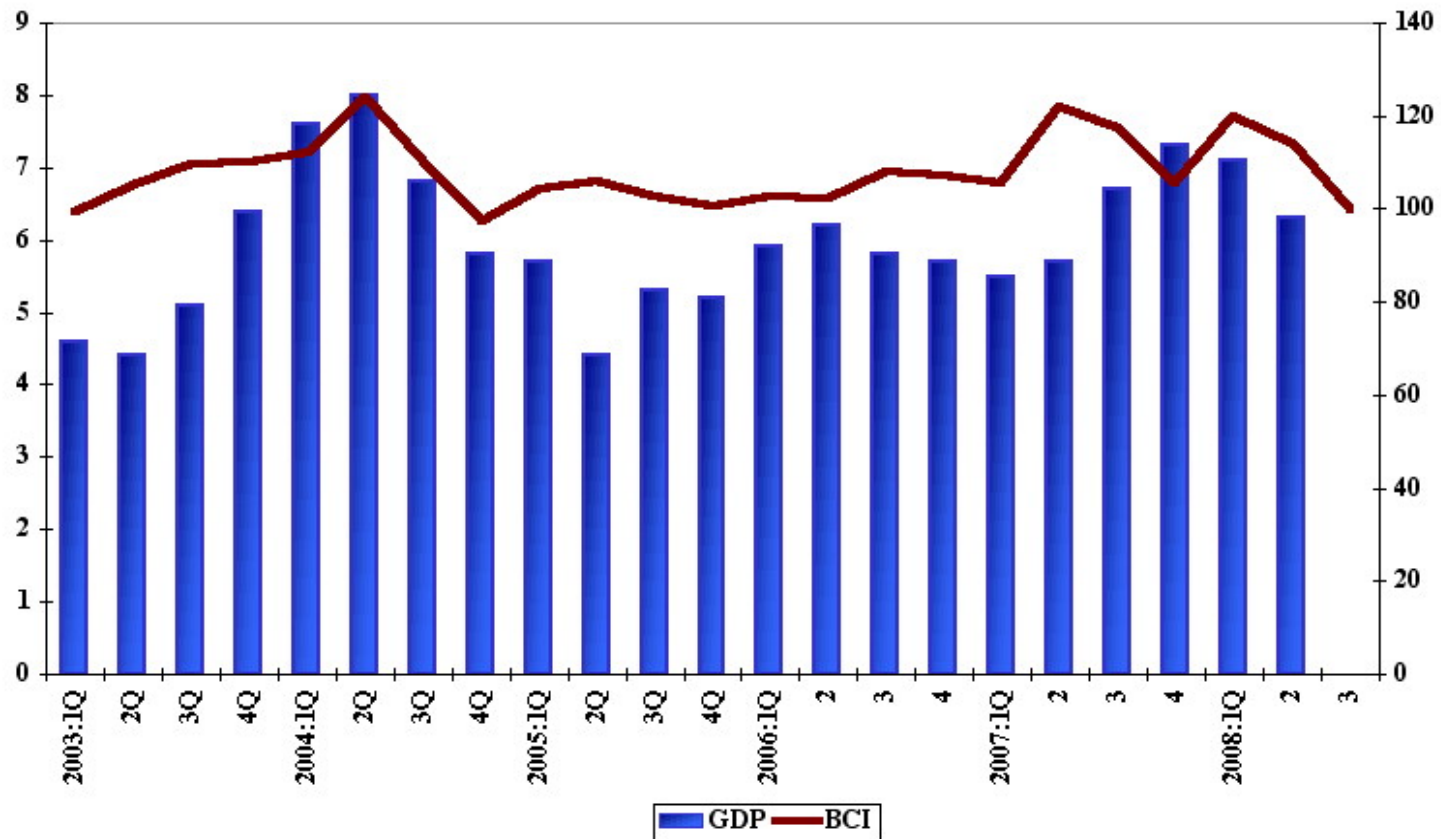
External Trade (RM Million)	Nov 2007	Nov 2008	% change
Exports	54.46	51.78	-4.9%
Imports	44.06	40.29	-8.6%
Balance of Trade	23.6	11.49	-51.3%

Source: Department of Statistics

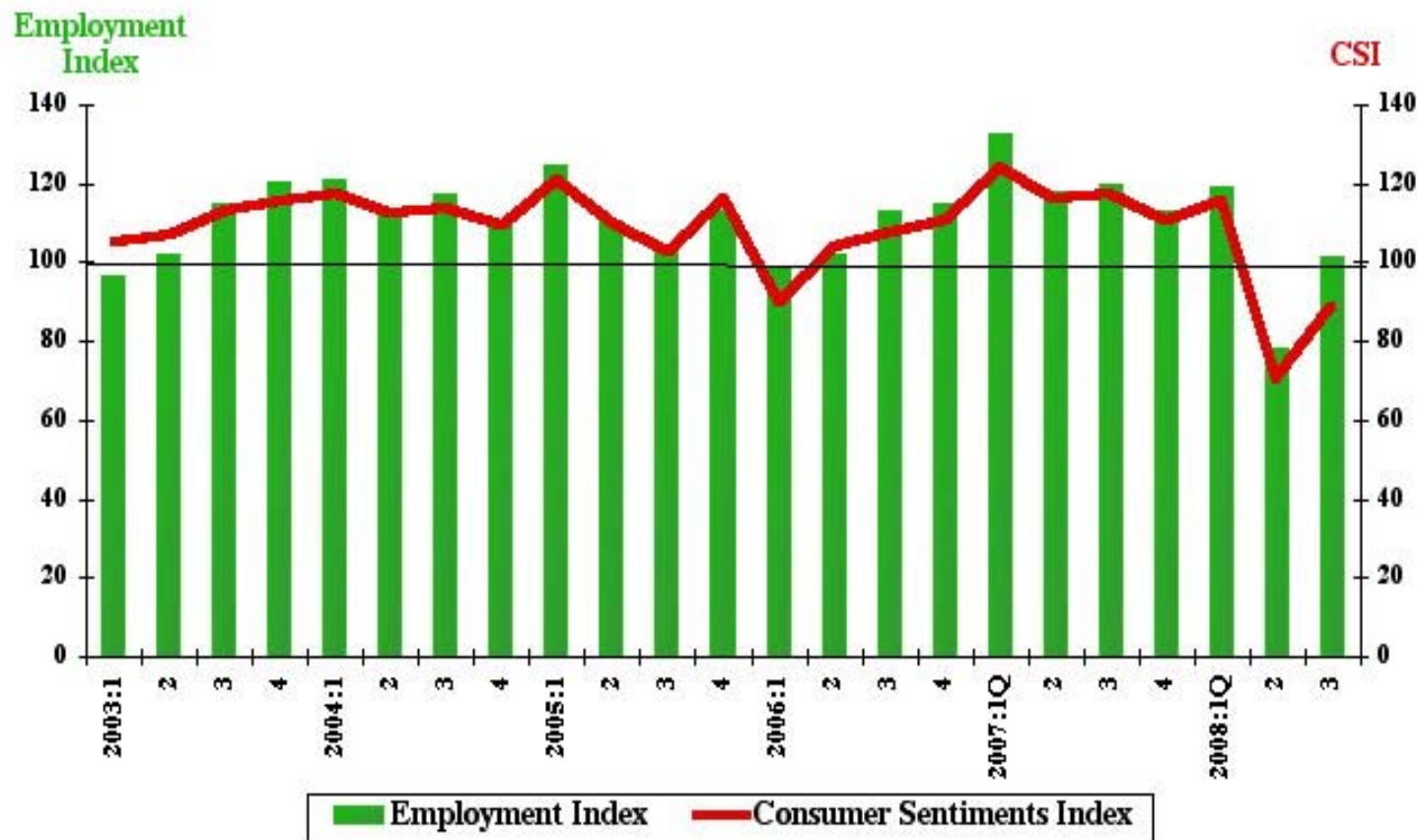
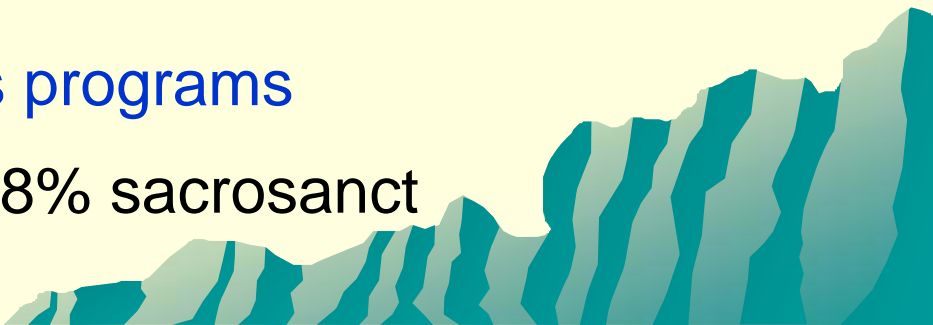
Is Malaysia following the same path as other exporting countries?

- Surprisingly the impact of the global meltdown on Malaysia is mild (up to December 08)
- 08 GDP growth is very likely to be more than 5%
- Government states that Malaysia is not going into a recession in 09
- But can we maintain 3.5% growth in 2009? The official GDP growth forecast may be reviewed downwards.
- Private sector 09 GDP forecasts:
  - RHB Research: 1.5%
  - Morgan Stanley: 1%
  - MARC: 2.5%
  - Citigroup:0.9%

Other Economic Indicators

- November 09 Industrial Production Index: -7.7%
  - Manufacturing: -9.4%
  - Electricity: -2.8%
- Retrenchment: actual numbers of workers being retrenched are difficult to get
  - MOHR: 4,749 workers in electronic industry will be retrenched in the next three months
- Depreciating exchange rate: only about 5%
- MIER’s Business Conditions Index falls in 3Q08

MIER's Business Conditions Index falls 14.5 points to 99.6-points in 3Q 08

However, there are also sound fundamentals in other areas

- Consumer confidence is still intact
- Banks are well capitalised
- Actual gross loans in the banking sector grew 11% (yoy) in November 09
- Banks expects average loans growth of 5% in 09
- Net NPL ratio remains at an all-time low of 2.4% (November 09)
- Asset quality preserved by proactive measures taken by banks to restructure loans for borrowers that are experiencing stress.
- RM7bn Fiscal stimulus package and the Government may consider another stimulus package if needed

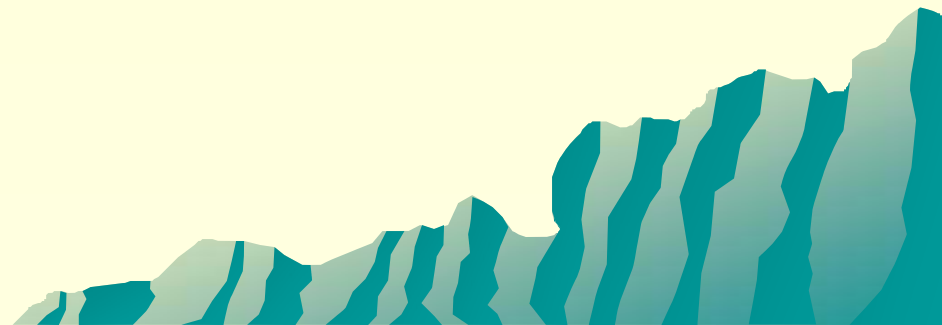
MIER's Consumer Sentiment Index rebounds to 88.9-points in 3Q 08 from historical low of 70.6 but below 100

New Challenges

- Plummeting oil and commodity prices implications on income for industry participants and Government
- Disappearing demand for exports - diversification of export markets is not working
  - Demand from non-core export markets (e.g. China, Korea and India) is softening
  - Services exports: Malaysian construction companies job abroad
- Capital flows, decreasing trade surplus and balance of payment
- Unemployment – will likely be a major concern
- Sharp decline in KLSE – massive value impairment to companies and investors

Ensuring Domestic Growth is the Priority

- Inflation is no longer an issue?
  - Inflation forecast for 2009: 3-4%
  - But Malaysia is operating at a higher price level
- Increasing disposable income and consumer propensity to spend
- What can be done to mitigate the fallout from the manufacturing sector
- How fast can the fiscal stimulus programs be implemented?
- Challenges: Determining
  - Is the size of the fiscal stimulus adequate to expand the economy
  - what kind of fiscal stimulus programs
- Is the fiscal deficit ceiling of 4.8% sacrosanct

How will Malaysia perform during this crisis

- Certainly we are going to be affected.
- At the moment, the impact is not so serious but we can suddenly “fall of the cliff” as experienced by other countries
- There are tough challenges but Malaysia has its own strength
- How to attract investment (Gross Fixed Capital Formation was only 21.8% of GDP in 2007) when demand is collapsing? Is improvement is investment climate the solutions?
- Multiplier effects of the stimulus package?
- Risks of rising unemployment – encouraging employment by the private sector

Malaysia's Prospects

- In some areas Malaysia is in stronger position than in 1998
- Experience from the 1998 crisis prepared us for a more sensible response
- But the main worry is if the global crisis is a long one – how long can we sustain domestic growth:
  - Level of consumption
  - Government resources
- Hopefully the coordinated response for the real sector by the world leading economies will arrest the global economic slowdown

Thank you.